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**Subcommittee on the Middle East and Central Asia**

**“Review of U.S. Policy and Assistance Programs to Egypt”**

Thank you Madame Chairman and other distinguished Members of the Committee, for inviting me here today. I am joined by my distinguished colleagues from AID and State’s Bureau of Political-Military Affairs. We welcome the opportunity to discuss the U.S. relationship with Egypt and our assistance programs with this critical ally in the Middle East.

Our strategic partnership with Egypt is in many ways a cornerstone of our foreign policy in the Middle East. The United States and Egypt share a common vision of a Middle East that is at peace and free of the scourge of terror. The United States greatly values our strategic relationship with Egypt, one that has been marked by moments of great courage such as when Anwar Sadat made peace with Israel. We have looked to Egypt as a regional leader on the issue of relations between Israel and the Palestinians and they have not let us down. Egypt played a critical role in facilitating Israel’s unilateral withdrawal from Gaza last August and September and the historic opening of the Rafah crossing. After obtaining Israeli agreement to an exception to limits established by the 1979 Treaty of Peace, the Egyptians deployed a 750-man border guard unit along the Gaza-Egyptian border and took concrete steps to curb the smuggling of weapons into Gaza. Following the inauguration of the Hamas-led Palestinian Authority government, Egypt publicly called upon the new Palestinian leadership to accept the Quartet principles: recognize Israel, renounce violence, and respect previous agreements.

Like the United States, Egypt has witnessed first-hand the brutal effects of terrorism and has suffered three waves of terror attacks in the Sinai over the last 18 months. These attacks are only the most recent in Egypt’s long struggle with violent extremism. Egypt worked as a close partner with the United States in the global war on terrorism and has greatly assisted our efforts aimed at eradicating this scourge.

Egypt has demonstrated leadership on other regional issues – from their IAEA Board of Governors’ vote to report Iran to the UNSC for its non-compliance with its international obligations to President Mubarak’s personal efforts to hold the

Syrian regime responsible for its destabilizing behavior in the region. We welcomed Egypt's early endorsement of the May 5 Abuja agreement, which was a significant step forward in ending the genocide in Darfur, and Egypt's public commitment to providing troops to future peacekeeping forces there.

As President Bush said in his February 2, 2005, State of the Union address, "the great and proud nation of Egypt, which showed the way toward peace in the Middle East, can now show the way toward democracy in the Middle East." The United States looks to Egypt to uphold its proud tradition of regional leadership in moving forward on the reform agenda that President Mubarak himself laid out in last year's presidential campaign and we intend to continue our work with Egypt in pursuit of these goals.

Last June, Secretary Rice delivered an historic address at the American University in Cairo calling on Egypt to make a generational commitment to democratization and asking the Egyptian leadership to put its faith in its people. We welcomed President Mubarak's decision to amend Egypt's constitution and hold multi-candidate elections. In September of last year, Egyptians went to the polls in the country's first-ever contested presidential elections in which the president had to ask for the consent of the governed. This was a major step forward and we recognized it as such. The relatively peaceful presidential elections were followed by parliamentary polls that were marred by irregularities and serious incidents of violence in the last two rounds. We expressed our deep disappointment with the conduct of these elections as well as with the late December sentencing to five years imprisonment of opposition politician Ayman Nour, who had challenged President Mubarak in his run for re-election last year.

We have continued to express concern about the pace of political reform in Egypt during the course of this year. We have been concerned by the postponement of municipal polls, the extension by two years of the Emergency Law, the prosecution of whistleblower judges, and the recent violence against peaceful demonstrators and round-ups of democracy activists. We would like to see Egypt make the same kind of progress on political reform that it has made on economic reform, where gains have been impressive. We were pleased that Prime Minister Nazif's Cabinet appointments in December 2005 included a strong team of reformers to steer the key economic and social portfolios. The new cabinet is working to implement an ambitious economic reform agenda designed to generate jobs and attract foreign investment.

The Nazif Government, which first took office in July 2004, has built a solid record of economic reform: it cut income taxes in half, significantly reduced tariffs and fuel subsidies on diesel fuel, made the budget more transparent, privatized 81 state-owned companies, stabilized the Egyptian pound, eliminated the black market for hard currency, overhauled management of the Central Bank, sold all the government's shares in the largest joint venture banks, and is putting one of the "big four" state-owned banks up for sale. It has also signed a Qualifying Industrial Zones agreement, which has increased economic cooperation and trade with Israel significantly. We will continue to strongly support the Government of Egypt's very positive and ambitious steps on economic reform.

As President Bush noted in this year's State of the Union Address, elections are but one step on the road to political reform. Raising up a democracy requires the rule of law, the protection of minorities and vulnerable members of society, and strong, accountable institutions that last longer than a single vote. Since the new Egyptian government took office in December, Egyptian leaders have reiterated that political reform and democratization are their top priorities. We have urged the Egyptian government to enact the political reforms outlined by President Mubarak during last year's Presidential campaign, namely: replacement of the emergency law with a modern counterterrorism law; revision and modernization of the law governing the judiciary; revision of the media law to expand press freedom; new legislation to strengthen local councils; revision of the penal code to narrow the power of authorities to hold people without charge; and obtaining parliamentary input on broader constitutional reform.

The United States remains committed to continue discussion of a bilateral Free Trade Agreement with Egypt. However, as Secretary Rice explained during her visit to Cairo in February, "the timing is not right just now, but we want to have an FTA with Egypt because we believe it will make a difference to economic reform and ultimately to the economy here in Egypt." We believe that an FTA can make a positive difference to the economic reform process underway in Egypt and that it would ultimately benefit ordinary Egyptians as well as the United States.

As the Secretary also indicated during her testimony on the Administration's foreign affairs budget earlier this year, overall we have seen progress toward a more democratic society in Egypt and we strongly believe that U.S. aid to Egypt should continue. Egyptians themselves – from our government interlocutors to the democracy activists who have courageously taken to the streets – want a process of reform. We believe that it is in the U.S. national interest for us to remain involved and partnered with Egypt in what will be a generational challenge. With a new

generation of leadership preparing to emerge in Egypt, it is critical to American interests and to the lives of ordinary Egyptians, that the United States remain fully engaged in this crucial partnership.

Thank you for your time. I would be pleased to address your questions.